

PULASKI MEMORIAL HOSPITAL

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2007 AND 2006

CPAs / ADVISORS



PULASKI MEMORIAL HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Pulaski Memorial Hospital
Winamac, Indiana

We have audited the accompanying balance sheets of Pulaski Memorial Hospital (the Hospital), a component unit of Pulaski County, as of September 30, 2007 and 2006 and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2007 and 2006, and the results of its operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis, as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

February 22, 2008

REQUIRED SUPPLEMENTARY INFORMATION

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2007 AND 2006

Our discussion and analysis of Pulaski Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the years ended September 30, 2007 and 2006. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements. Unless otherwise indicated, amounts in millions.

Using This Annual Report

This annual report consists of two parts—*management's discussion and analysis*, and the *basic financial statements*.

- In the "*management discussion and analysis*" section of this report the management of the hospital discuss various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statement*" section of this report includes a series of financial statements which provide information about the activities of the Hospital as a whole. The Balance Sheets reveal the assets and liabilities of the Hospital on September 30, 2007 and 2006 while the Statements of Operations and Changes in Net Assets summarizes the changes in the assets and liabilities for the years then ended. The Statements of Cash Flows summarize the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

The Hospital's net assets are essentially unchanged when compared to last year at \$9.3 million. Net Patient Service Revenue increased \$.3 million or 1.6%. Outpatient admissions and inpatient days showed slight increases from last year.

The Hospital's expenses increased \$0.4 million or 2%. Most of the expenses held the line with last year with slight increases noted in Salaries and Benefits, Other Professional Fees, and Medical Supplies and Drugs.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2007 AND 2006

Summarized Financial Statement Information

The Hospital's net assets are the difference between its assets and liabilities. The following information documents in summary the net assets and the changes in net assets related to activities of the Hospital for the years as of and for the years ended September 30, 2007 and 2006.

	2007 Net Assets (millions)	2006 Net Assets (millions)
Current assets	\$ 5.0	\$ 4.6
Non-current cash and investments	0.5	0.5
Capital assets and other assets	6.2	6.9
Total assets	11.7	12.0
Current liabilities	2.2	2.2
Long-term debt and capital leases, net	0.2	0.5
Total liabilities	2.4	2.7
Net assets		
Invested in capital assets, net of related debt	5.5	6.0
Restricted expendable	0.5	0.4
Unrestricted	3.3	2.9
	<u>\$ 9.3</u>	<u>\$ 9.3</u>
	Changes in Net Assets (millions)	Changes in Net Assets (millions)
Revenue		
Net patient service revenue	\$ 19.0	\$ 18.7
Other revenue	1.0	1.2
Total operating revenue	20.0	19.9
Expenses		
Salaries and benefits	11.7	11.6
Medical professional fees	0.8	0.8
Other professional fees	1.4	1.2
Medical supplies and drugs	3.3	3.2
Rent	0.2	0.2
Insurance	0.3	0.3
Depreciation and amortization	1.2	1.1
Other	1.2	1.3
Total operating expenses	20.1	19.7
Operating income (loss)	(0.1)	0.2
Non-operating revenue, net	0.1	0.1
Change in assets	<u>\$ 0.0</u>	<u>\$ 0.3</u>

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2007 AND 2006

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2007 and 2006 the Hospital had \$6.1 million and \$6.9 million invested in capital assets, respectively. The following documents the type of assets that make up Capital Assets.

	2007 (millions)	2006 (millions)
Land	\$ 0.2	\$ 0.2
Land improvements	0.3	0.3
Buildings	7.4	7.1
Equipment	9.6	9.4
Construction in process	0.3	0.4
Total	17.8	17.4
Less accumulated depreciation	11.7	10.5
Net capital assets	<u>\$ 6.1</u>	<u>\$ 6.9</u>

*Changes in Capital Assets are reflected in the Notes to the Financial Statements.

Long-term Debt and Capital Leases

As of September 30, 2007 and 2006, the Hospital had approximately \$0.4 million and \$0.9 million in outstanding notes payable and capital leases, respectively. The following documents the long-term debt and capital leases held.

	2007 (millions)	2006 (millions)
Notes Payable	\$ 0.1	\$ 0.3
Capital Leases	0.3	0.6
	<u>\$ 0.4</u>	<u>\$ 0.9</u>

*Changes in Debt are reflected in the Notes to the Financial Statements.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2007 AND 2006

Economic Factors

The economic conditions in our primary service area have remained fairly stable and management expects that to continue. Being a Critical Access Hospital (CAH), we are reimbursed the cost of providing inpatient and outpatient services to Medicare patients, which is approximately 50% of the Hospital's revenue. We do not anticipate any changes that would result in decreased reimbursement in Medicare.

Contacting Hospital Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Chief Executive Officer at Pulaski Memorial Hospital, 616 E. 16th Street, PO Box 279, Winamac, Indiana 46996.

PULASKI MEMORIAL HOSPITAL

BALANCE SHEETS SEPTEMBER 30, 2007 AND 2006

ASSETS		
	2007	2006
Current assets		
Cash and cash equivalents	\$ 473,498	\$ 230,898
Patient accounts receivable, net of estimated uncollectibles of \$1,856,363 and \$1,780,390 in 2007 and 2006, respectively	3,455,218	3,239,371
Estimated third party settlements	412,289	505,583
Supplies and other current assets	645,048	586,818
Total current assets	4,986,053	4,562,670
Noncurrent cash and investments		
Restricted by contributors and grantors	532,014	458,146
Total noncurrent cash and investments	532,014	458,146
Capital assets		
Land and construction in progress	472,852	605,051
Depreciable capital assets, net	5,596,930	6,270,596
Total capital assets	6,069,782	6,875,647
Other assets	179,584	10,417
Total assets	<u>\$ 11,767,433</u>	<u>\$ 11,906,880</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Line of credit	\$ 150,000	\$ -0-
Current maturities of long-term debt and capital leases	338,423	469,043
Accounts payable and accrued expenses	762,164	645,223
Accrued salaries and related liabilities	872,430	953,440
Other current liabilities	56,052	83,664
Total current liabilities	2,179,069	2,151,370
Long-term liabilities		
Long-term debt	57,094	139,389
Capital leases	22,996	279,076
Other long-term liabilities	169,167	-0-
Total long-term liabilities	249,257	418,465
Total liabilities	2,428,326	2,569,835
Net assets		
Unrestricted	3,332,776	2,895,240
Invested in capital assets, net of related debt	5,482,102	5,988,139
Restricted		
Expendable for capital acquisitions	460,762	380,559
Expendable for specific operating activities	63,467	73,107
Total net assets	9,339,107	9,337,045
Total liabilities and net assets	<u>\$ 11,767,433</u>	<u>\$ 11,906,880</u>

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
Revenues		
Net patient service revenue	\$ 18,960,871	\$ 18,747,122
Other	976,400	1,170,633
Total operating revenue	<u>19,937,271</u>	<u>19,917,755</u>
Expenses		
Salaries and benefits	11,711,991	11,608,121
Medical professional fees	750,695	800,352
Other professional fees	1,407,088	1,206,451
Supplies and drugs	3,325,084	3,217,596
Rent	178,653	197,928
Insurance	295,331	271,846
Depreciation and amortization	1,165,384	1,096,790
Other	1,212,721	1,330,091
Total operating expenses	<u>20,046,947</u>	<u>19,729,175</u>
Operating income (loss)	(109,676)	188,580
Nonoperating revenue (expense)		
Investment income	32,519	81,879
Interest expense	(35,548)	(52,704)
Other	114,767	125,871
Total nonoperating revenue (expense)	<u>111,738</u>	<u>155,046</u>
Change in net assets	2,062	343,626
Net assets, beginning of year	<u>9,337,045</u>	<u>8,993,419</u>
Net assets, end of year	<u><u>\$ 9,339,107</u></u>	<u><u>\$ 9,337,045</u></u>

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
Operating activities		
Cash received from patients and third party payors	\$ 18,838,318	\$ 17,175,464
Cash paid to employees for salaries and benefits	(11,793,001)	(11,610,235)
Cash paid to vendors for goods and services	(7,138,473)	(7,110,474)
Other operating receipts, net	976,400	1,170,633
Net cash from operating activities	883,244	(374,612)
Capital and related financing activities		
Acquisition and construction of capital assets	(359,519)	(686,088)
Interest paid on long-term debt	(35,548)	(52,704)
Proceeds on line of credit	250,000	133,000
Payments on line of credit	(100,000)	(133,000)
Principal payments on long-term debt and capital leases	(468,995)	(542,254)
Net cash from capital and related financing activities	(714,062)	(1,281,046)
Investing activities		
Investment and other nonoperating income	147,286	197,541
Change in internally designated assets	-0-	1,374,417
Change in investments, net	-0-	430,418
Net cash from investing activities	147,286	2,002,376
Net change in cash and cash equivalents	316,468	346,718
Cash and cash equivalents, beginning of year	689,044	342,326
Cash and cash equivalents, end of year	\$ 1,005,512	\$ 689,044
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 473,498	\$ 230,898
In noncurrent cash and investments	532,014	458,146
Total cash and cash equivalents	\$ 1,005,512	\$ 689,044

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
Reconciliation of operating income (loss)		
to net cash from operating activities		
Operating income (loss)	\$ (109,676)	\$ 188,580
Adjustments to reconcile operating income (loss)		
to net cash from operating activities:		
Depreciation and amortization	1,165,384	1,096,790
Provision for bad debt	992,441	1,327,077
Changes in assets and liabilities		
Patient accounts receivable	(1,208,288)	(1,838,823)
Estimated third-party settlements	93,294	(1,059,912)
Supplies and other current assets	(58,230)	(152,489)
Other assets	(169,167)	-0-
Accounts payable and accrued expenses	116,941	35,037
Other current liabilities	(27,612)	31,242
Accrued salaries and related liabilities	(81,010)	(2,114)
Other long-term liabilities	169,167	-0-
Net cash flows from operating activities	<u>\$ 883,244</u>	<u>\$ (374,612)</u>

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Pulaski Memorial Hospital (the Hospital) is a county owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Pulaski County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Pulaski County.

The accompanying financial statements present the activities of the Hospital (primary government). There are no significant component units which require inclusion.

Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to ninety days.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income includes interest income and is reported as nonoperating revenues in the statement of operations and changes in net assets.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. Capital assets under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

Description	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 2,000	Straight line	*
Buildings and fixed equipment	\$ 2,000	Straight line	*
Major movable and minor equipment	\$ 2,000	Straight line	*

* Based on the most current edition of the American Hospital Association's (AHA's) Estimated Useful Lives of Depreciable Hospital Assets, for each individual capital asset.

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during either 2007 or 2006.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

Noncurrent Cash and Investments

Internally designated – Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by IC 16-22-3-13.

Restricted by contributors and grantors – Amounts include cash from three funds that are restricted for specific operating purposes either by the donor or funding source. The funds include Sweet Beginnings, Building and Donated, and Cumulative Building Fund.

Compensated Absences

Sick Time – Hospital employees earn sick leave at various rates per pay period. Unused sick leave may be accumulated to a maximum of ninety-six hours. Accumulated sick leave over ninety-six hours is paid to employees through cash payments upon proper notice of termination or upon request of the employee to be included on the last pay of each calendar year.

Paid Time Off – Hospital employees earn paid time off at various rates per pay period based upon their classification and their number of years of service. Paid time off may be accumulated to a maximum of 136 to 216 hours based on their number of years of service. Accumulated paid time off is paid to employees through cash payments upon proper notice of termination.

Paid time off and sick leave are accrued when incurred and reported as a liability.

Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. Net patient service revenues in the accompanying statements of operations and changes in net assets were decreased by approximately \$291,985 during 2006, to reflect changes in the estimated settlements for certain prior years. During 2007 there were no material differences from the estimated settlements from prior years.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Patient Accounts Receivable, Revenues and Operating Expenses

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The Hospital is a provider of services to patients entitled to coverage under Medicare. The Hospital was granted Critical Access Status by Medicare. The Hospital is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports.

Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2005. Management believes adequate provision has been made in the financial statements for any adjustments.

Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's patient base.

Revenue from Medicare and Medicaid programs account for approximately 39 percent and 3 percent, respectively, of the Hospital's net patient service revenue for the fiscal year ended 2007, and 41 percent and 2 percent, respectively, of the Hospital's net patient revenue for the fiscal year ended 2006.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts deemed to be charity care are not reported as revenues.

Operating Revenues and Expenses

The Hospital's statement of operations and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the Hospital receives grants from Pulaski County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2007 and 2006 was \$99,017 and \$117,846, respectively.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to and the destruction of assets; errors and omissions; job related illness or injuries to employees; medical benefits to employees and dependents (excluding post employment benefits); and natural disasters.

The risk of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past four years.

Federal of State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3).

Minimum Revenue Guarantees (New Accounting Pronouncement)

In November 2005, the FASB issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FIN 45-3"). It served as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" ("FIN 45") by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies.

Under FIN 45, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. One example cited in FIN 45-3 involves a guarantee provided by a healthcare entity to a non-employed physician in order to recruit such physician to move to the entity's geographical area and establish a private practice, which is the approach the Hospital uses in recruiting physicians to the community. FIN 45 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

The Hospital adopted this amendment to FIN 45 effective January 1, 2006. For periods ending before January 1, 2006, the Hospital did not report the fair value of its obligations under physician revenue guarantee agreements. However, under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the local community.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

2. CHARITY CARE

Charges excluded from patient service revenue under the Hospital's charity care policy were \$240,474 and \$113,259 for 2007 and 2006, respectively.

3. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

The Hospital's investments generally are reported at cost, as discussed in Note 1. As of September 30, 2007 and 2006, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

September 30, 2006					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 689,044	\$ 689,044	\$ -0-	\$ -0-	\$ -0-
September 30, 2007					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 1,005,512	\$ 1,005,512	\$ -0-	\$ -0-	\$ -0-

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

Deposits and investments consist of the following as of September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	<u>\$ 1,005,512</u>	<u>\$ 689,044</u>
	<u>2007</u>	<u>2006</u>
Included in the following balance sheet		
Cash and cash equivalents	\$ 473,498	\$ 230,898
Restricted by contributors and grantors	532,014	458,146
	<u>\$ 1,005,512</u>	<u>\$ 689,044</u>

4. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of the following amounts at September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 4,684,698	\$ 4,320,417
Receivable from Medicare	1,952,834	1,673,343
Receivable from Medicaid	702,690	693,211
Total patient accounts receivable	7,340,222	6,686,971
Less allowance for contractual agreements and uncollectible amounts	3,885,004	3,447,600
Patient accounts receivable, net	<u>\$ 3,455,218</u>	<u>\$ 3,239,371</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 772,430	\$ 803,440
Payable to suppliers	762,164	645,223
Accrued employee health benefit claims	100,000	150,000
Total accounts payable and accrued expenses	<u>\$ 1,634,594</u>	<u>\$ 1,598,663</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

5. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2007 and 2006 is as follows:

	Balance September 30, 2006	Additions	Retirements	Transfers	Balance September 30, 2007
Land	\$ 189,325	\$ -0-	\$ -0-	\$ -0-	\$ 189,325
Land improvements	281,113	-0-	-0-	-0-	281,113
Buildings and fixtures	7,127,898	-0-	-0-	267,097	7,394,995
Fixed equipment	3,471,279	38,409	-0-	55,607	3,565,295
Moveable equipment	5,908,559	62,849	-0-	67,755	6,039,163
Construction in process	415,726	258,261	-0-	(390,459)	283,528
Total	17,393,900	359,519	-0-	-0-	17,753,419
Accumulated depreciation	10,518,253	1,165,384	-0-	-0-	11,683,637
Net capital assets	<u>\$ 6,875,647</u>	<u>\$ (805,865)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 6,069,782</u>

	Balance September 30, 2005	Additions	Retirements	Transfers	Balance September 30, 2006
Land	\$ 189,325	\$ -0-	\$ -0-	\$ -0-	\$ 189,325
Land improvements	275,006	-0-	-0-	6,107	281,113
Buildings and fixtures	7,019,755	108,143	-0-	-0-	7,127,898
Fixed equipment	3,312,422	144,023	-0-	14,834	3,471,279
Moveable equipment	5,766,413	173,012	(41,665)	10,799	5,908,559
Construction in process	176,347	271,119	-0-	(31,740)	415,726
Total	16,739,268	696,297	(41,665)	-0-	17,393,900
Accumulated depreciation	9,463,128	1,096,790	(41,665)	-0-	10,518,253
Net capital assets	<u>\$ 7,276,140</u>	<u>\$ (400,493)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 6,875,647</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

6. PHYSICIAN RELOCATION AGREEMENTS AND OTHER MINIMUM REVENUE GUARANTEES

Consistent with the Hospital's policy on physician relocation and recruitment, the Hospital provides income guarantee agreements to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice there. Annually, under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically five years. The Hospital also provides minimum revenue collection guarantees to Hospital-based physician groups providing certain services at the Hospital with terms of one year. At September 30, 2007, the maximum potential amount of future payments under these guarantees was approximately \$175,000, which is included in the assets and liabilities in the Balance Sheets.

7. LINE OF CREDIT

The Hospital has an \$800,000 line of credit which expires on August 28, 2008. Interest is due monthly at 6.25%. Outstanding borrowings under the line of credit were \$150,000 and \$0 at September 30, 2007 and 2006.

8. LONG-TERM DEBT AND CAPITAL LEASES

The Hospital has a note payable, secured by computer equipment. Payments, including interest at an annual rate of 4.5%, of \$8,913, paid in full in March 2007. The Hospital also has a note payable, secured by computer equipment. Payments, including interest at an annual rate of 4.75%, of \$7,266 are due monthly through May 2009.

The Hospital has also entered into various capital leases at varying rates of imputed interest from 2.8% to 7.5%, collateralized by leased equipment.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

Long-term debt and capital lease activity for the years ended September 30, 2007 and 2006, was as follows:

	Balance September 30, 2006	Additional borrowings	Payments	Balance September 30, 2007	Current portion	Long-term portion
Notes Payable	\$ 270,752	\$ -0-	\$ (131,315)	\$ 139,437	\$ 82,343	\$ 57,094
Capital Leases	616,756	-0-	(337,680)	279,076	256,080	22,996
	<u>\$ 887,508</u>	<u>\$ -0-</u>	<u>\$ (468,995)</u>	<u>\$ 418,513</u>	<u>\$ 338,423</u>	<u>\$ 80,090</u>

	Balance September 30, 2005	Additional borrowings	Payments	Balance September 30, 2006	Current portion	Long-term portion
Notes Payable	\$ 447,718	\$ -0-	\$ (176,966)	\$ 270,752	\$131,363	\$ 139,389
Capital Leases	982,044	-0-	(365,288)	616,756	337,680	279,076
	<u>\$ 1,429,762</u>	<u>\$ -0-</u>	<u>\$ (542,254)</u>	<u>\$ 887,508</u>	<u>\$469,043</u>	<u>\$ 418,465</u>

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year ending September 30,	Notes payable		Capital lease obligations	
	Principal	Interest	Principal	Interest
2008	\$ 82,343	\$ 4,844	\$ 256,080	\$ 6,678
2009	57,094	1,020	22,996	472
	<u>\$ 139,437</u>	<u>\$ 5,864</u>	<u>\$ 279,076</u>	<u>\$ 7,150</u>

The following is an analysis of the leased assets included in property and equipment as of September 30:

	2007	2006
Equipment	\$ 1,022,718	\$ 1,661,177
Accumulated depreciation	691,781	1,040,908
	<u>\$ 330,937</u>	<u>\$ 620,269</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

9. PATIENT SERVICE REVENUE

Patient service revenue for the years ended September 30, 2007 and 2006 consists of the following:

	2007	2006
Inpatient services	\$ 9,241,259	\$ 8,880,841
Outpatient services	24,950,127	22,820,742
Gross patient service revenue	34,191,386	31,701,583
Contractual allowances	(13,753,162)	(11,513,630)
Charity care	(484,912)	(113,754)
Bad debt	(992,441)	(1,327,077)
Deductions from revenue	(15,230,515)	(12,954,461)
Net patient service revenue	<u>\$ 18,960,871</u>	<u>\$ 18,747,122</u>

10. EMPLOYEE HEALTH PLAN

The Hospital has established a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the Operating Fund where assets are set aside and a liability is accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$75,000 per year.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors.

Health insurance expense for the years ended September 30, 2007 and 2006, was approximately \$2,471,000 and \$2,045,000 respectively.

11. MEDICAL MALPRACTICE

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007 AND 2006

12. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors at September 30, 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Medicare and Medicaid	37%	36%
Commercial and other payors	28%	29%
Self-pay payors	<u>35%</u>	<u>35%</u>
	<u>100%</u>	<u>100%</u>

13. COMMITMENTS AND CONTINGENCIES

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

14. JOINT VENTURE

In January of 2004, the Hospital entered into a joint venture, West Central Health Partners, with three other health care providers in surrounding counties. The initial capital contribution was approximately \$10,000. The venture was formed to provide support for physician recruiting and to potentially establish various purchasing agreements.